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NORWEST CORPORATION

ECONOMIC INDICATORS

CORPORATE ECONOMICS DEPARTMENT - DR. SUNG WON SOHN, CHIEF ECONOMIST OCTOBER 29, 1987

Fall 1987 Regional Economic Survey

Farm Economy

Big improvement. Excellent crop yields, lucrative government grain programs, abnormally high livestock profits and lower production costs have pumped up farm income, boosting spirits in farming areas.

Most farmers are experiencing positive cash flow. However, those with considerable debt still are struggling. Excess funds typically are being used to retire debt and to build cash reserves. Although some new equipment is being purchased, capital expenditures continue to be restrained. Farmers with limited debt are purchasing additional farmland.

One-third of the agricultural bankers rated overall economic conditions good and 56 percent fair—continued improvement from last spring. Only 9 percent of the bankers classified local conditions as poor. South Dakota bankers were the most upbeat; half of the bankers rated current conditions good. Iowa bankers were nearly as positive, while North Dakota bankers rated conditions least favorably.

Some nonmetropolitan areas are rebounding. Nonfarm employment in rural Minnesota is up nearly 6 percent from a year ago, more than double the rate in the Twin Cities, Rochester and St. Cloud. Although still weak, North Dakota and Montana are beginning to benefit from improved oil-related activity.

Virtually all bankers expect stable to stronger economic conditions during the next six months. This positive appraisal pushed the agricultural bankers' confidence index to the highest level since 1978 (see page 5).

Nevertheless, bankers note that mainstreet businesses in smaller rural towns continue to struggle. They express concern over lack of jobs, declining populations and increased competition from larger retail centers.

Bankers also consider the 1987 improvement in farm income an exception, rather than the rule. Moderately lower farm income is expected next year. Excellent 1987 returns on livestock feeding are unlikely to be matched during 1988, target prices for grains will drop 2 percent, the dairy-price supports are likely to be reduced 50 cents per cwt.

Bankers are more guarded about the prospects beyond 1988. Some bankers feel we are in a false recovery; they anticipate lower livestock prices, reduced government subsidies and less favora-

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Highlights

- Our 23rd semiannual survey of the region's bankers reveals that many farmers are enjoying excellent earnings, debt levels are being reduced substantially, and credit quality is improving. Land values are up for the first time since 1981.
- Farmers with considerable debt still are struggling, but the number of farmers going out of business dropped to the lowest level in four years. The vast majority of farmers are expected to survive in the long run.
- These factors pushed the agricultural bankers' confidence index to the highest level since 1978. Although 1987 farm income is considered an exception, rather than the rule, bankers look for another favorable year in 1988. But some bankers feel we are in a false recovery; they anticipate lower farm earnings, especially beyond 1988, hurting those who have not gotten debt under control. Bankers also note that mainstreet businesses in smaller rural towns continue to struggle.
- Problem farm loans continue to trend downward. Bankers indicate that, in dollar terms, about 80 percent of their farm loans are experiencing little or no repayment problems. The median response was 85 percent.
- Although loan demand remains weak, some banks report increases in farm-loan volume. Deposit growth slowed, boosting loan-to-deposit ratios for the first time in several years.
- The Twin Cities economy also received higher marks than last spring. Bankers expect little change in economic conditions during the next six months, unless interest rates rise sufficiently to cool the economy.
- Metal-mining employment is up, perhaps signaling the end of the downturn on Minnesota's Iron Range. Other parts of northeastern Minnesota are benefiting from stronger tourism, logging activity and paper production.
- Deposit growth also slowed in the Twin Cities, while northern Minnesota/Wisconsin bankers report anemic loan demand.
- Conducted in early October, this survey drew responses from about 850 bankers in Iowa, Minnesota, Montana, Nebraska, North Dakota, South Dakota and Wisconsin.

Credit Conditions

Qualitative questions such as 2, 6, 10 and 18-26 show the percentage of bankers falling in each of the categories higher, same, lower, etc. Items may not add up to 100 percent due to rounding.

1. What is your current **loan-to-deposit ratio**?

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	51.0%	40.0%	50.0%	60.0%
Minnesota	54.5	45.0	54.0	65.0
North Dakota	49.3	40.0	49.0	57.0
South Dakota	45.6	35.0	45.0	58.0
Montana	52.0	42.0	49.0	62.0
Wisconsin	59.2	51.9	60.0	65.9
Iowa	46.9	38.0	46.0	55.0
Nebraska	53.4	41.9	52.0	64.0
Twin Cities Banks	63.4	57.0	64.5	70.0
N. Minn.-Wisc.	55.7	49.2	56.0	64.3

2. **Loan-to-deposit ratio** higher or lower than desired?

	Higher	Desired	Lower
All Ag Banks	6%	30%	65%
Minnesota	6	35	59
North Dakota	1	30	69
South Dakota	7	32	61
Montana	7	21	72
Wisconsin	2	35	63
Iowa	6	26	69
Nebraska	10	24	66
Twin Cities Banks	5	36	59
N. Minn.-Wisc.	3	45	53

3. **Typical interest rate** charged for operating loans?

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	11.5%	11.0%	11.5%	12.0%
Minnesota	11.6	11.3	11.5	12.0
North Dakota	11.6	11.3	11.5	12.0
South Dakota	11.6	11.0	11.8	12.0
Montana	11.6	11.0	11.5	12.0
Wisconsin	11.4	11.0	11.5	11.9
Iowa	11.4	11.0	11.3	11.8
Nebraska	11.3	11.0	11.3	11.8
Twin Cities Banks	11.0	10.8	11.0	11.3
N. Minn.-Wisc.	11.7	11.0	11.9	12.5

4. Percentage change in **farm loan volume** during **past 12 months**?

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	– 4.9%	– 10.0%	0.0%	0.0%
Minnesota	– 6.6	– 14.9	– 5.0	0.0
North Dakota	– 3.7	– 9.8	0.0	0.0
South Dakota	– 5.1	– 10.0	0.0	0.0
Montana	– 7.4	– 15.0	– 2.0	0.0
Wisconsin	2.1	– 2.0	0.0	5.0
Iowa	– 4.8	– 10.0	– 0.8	0.0
Nebraska	– 5.5	– 10.0	– 5.0	0.0

5. Percentage change in **loan volume** during **past 12 months**?

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	– 1.2%	– 8.0%	0.0%	5.0%
Twin Cities Banks	4.7	0.0	7.5	12.8
N. Minn.-Wisc.	1.8	– 2.5	0.0	9.5

6. **Anticipated loan growth** during **next 12 months** compared with past year?

	Higher	Same	Lower
All Ag Banks	24%	60%	16%
Minnesota	22	63	16
North Dakota	19	64	18
South Dakota	34	49	18
Montana	38	45	17
Wisconsin	25	58	17
Iowa	24	61	15
Nebraska	24	65	11
Twin Cities Banks	41	45	14
N. Minn.-Wisc.	21	61	18

7. Percentage change in **bank deposits** during past 12 months?

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	1.8%	– 1.0%	0.5%	5.5%
Minnesota	2.7	0.0	2.0	5.6
North Dakota	0.6	– 1.5	0.0	5.0
South Dakota	2.0	– 2.0	2.2	5.6
Montana	– 1.4	– 8.0	– 1.0	3.0
Wisconsin	4.3	0.0	4.7	7.5
Iowa	1.3	– 2.0	0.0	5.0
Nebraska	1.1	– 3.0	0.0	5.0
Twin Cities Banks	6.3	2.2	7.0	10.0
N. Minn.-Wisc.	3.1	0.0	3.0	5.0

8. Percentage of **farm loan portfolio** that is **nonperforming**?

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	4.1%	0.4%	2.0%	5.0%
Minnesota	4.9	0.5	3.0	6.7
North Dakota	5.0	1.0	2.4	7.0
South Dakota	3.5	0.5	2.0	5.4
Montana	5.7	0.0	3.0	10.0
Wisconsin	3.3	1.0	2.0	5.0
Iowa	3.1	0.0	1.0	4.5
Nebraska	4.2	1.0	2.0	7.0

9. Percentage of farm loans experiencing **little or no repayment problems**?

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	78.6%	70.0%	85.0%	92.0%
Minnesota	76.6	66.2	80.0	90.0
North Dakota	73.1	62.5	75.0	90.0
South Dakota	75.0	67.5	80.0	90.0
Montana	76.1	60.0	85.0	95.0
Wisconsin	78.5	70.0	80.0	95.0
Iowa	84.4	80.0	90.0	95.0
Nebraska	74.9	75.0	80.0	90.0

10. **Net loan charge-offs** compared with year ago?

	Higher	Same	Lower
All Ag Banks	13%	21%	66%
Minnesota	17	22	61
North Dakota	8	19	73
South Dakota	10	31	59
Montana	24	21	55
Wisconsin	17	26	57
Iowa	7	17	76
Nebraska	16	23	61
Twin Cities Banks	25	32	43
N. Minn.-Wisc.	21	37	42

Business Conditions

11a. Current **market value** of good **cropland?** (Dollars per acre)

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	$ 725	$450	$700	$1000
Minnesota	707	550	700	900
North Dakota	404	250	325	500
South Dakota	340	205	300	400
Montana	455	250	300	588
Wisconsin	514	450	500	550
Iowa	1051	879	1100	1200
Nebraska	685	500	725	900

11b. Current **market value** of **pastureland?** (Dollars per acre)

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	$250	$140	$225	$300
Minnesota	250	150	250	300
North Dakota	119	89	100	125
South Dakota	142	100	125	181
Montana	165	50	75	150
Wisconsin	214	150	200	250
Iowa	364	250	340	450
Nebraska	196	100	185	250

12a. Percentage **change** in **cropland prices** from a year ago?

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	3.7%	0.0%	2.3%	10.0%
Minnesota	3.1	0.0	0.0	10.0
North Dakota	-1.6	-5.0	0.0	0.0
South Dakota	1.9	0.0	0.0	5.0
Montana	-5.6	-13.8	0.0	0.0
Wisconsin	-3.2	-10.0	0.0	0.0
Iowa	8.4	5.0	10.0	11.0
Nebraska	6.5	0.0	5.0	10.0

12b. Percentage **change** in **pastureland prices** from a year ago?

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	-0.5%	0.0%	0.0%	0.0%
Minnesota	-1.2	0.0	0.0	0.0
North Dakota	-2.4	0.0	0.0	0.0
South Dakota	-1.0	0.0	0.0	0.0
Montana	-9.1	-18.8	-2.5	0.0
Wisconsin	-4.5	-9.5	0.0	0.0
Iowa	1.9	0.0	0.0	3.3
Nebraska	3.6	0.0	0.0	10.0

13. Anticipated trend in **land prices** during **next 12 months?**

	Increase	Stable	Decrease
All Ag Banks	30%	67%	3%
Minnesota	26	70	4
North Dakota	8	86	5
South Dakota	26	74	0
Montana	21	69	10
Wisconsin	12	83	6
Iowa	46	54	0
Nebraska	33	67	0

14. Percentage of farm borrowers having **negative cash flow** in 1987?

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	7.7%	2.0%	5.0%	10.0%
Minnesota	8.7	2.0	5.0	10.0
North Dakota	9.9	2.8	5.0	10.0
South Dakota	7.3	2.5	5.0	10.0
Montana	10.1	1.0	5.0	15.0
Wisconsin	10.8	3.0	8.0	10.0
Iowa	5.2	2.0	5.0	6.0
Nebraska	7.0	2.0	5.0	5.0

15. Percentage of farm customers that went **out of business** during the **past 12 months?**

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	2.2%	0.0%	1.0%	3.0%
Minnesota	2.8	0.0	2.0	5.0
North Dakota	1.8	0.0	1.0	2.0
South Dakota	2.0	0.0	1.0	3.0
Montana	2.3	0.0	1.0	5.0
Wisconsin	3.0	0.5	2.0	3.0
Iowa	1.8	0.0	1.0	2.0
Nebraska	2.1	0.0	1.0	3.0

16. Percentage of farm customers likely to **discontinue operating** during the **next 12 months?**

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	2.1%	1.0%	2.0%	3.0%
Minnesota	2.3	0.5	2.0	3.0
North Dakota	1.9	1.0	2.0	2.4
South Dakota	2.0	1.0	2.0	3.0
Montana	3.0	1.0	2.0	5.0
Wisconsin	2.3	1.0	2.0	3.0
Iowa	1.7	1.0	1.0	2.0
Nebraska	2.1	1.0	2.0	3.0

17. Percentage of farm/ranch customers likely to **survive** in the **long run?**

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	87.7%	80.0%	90.0%	95.0%
Minnesota	87.0	80.0	90.0	95.0
North Dakota	87.8	85.0	90.0	95.0
South Dakota	86.6	80.0	90.0	95.0
Montana	84.9	80.0	85.0	95.0
Wisconsin	86.3	80.0	90.0	95.0
Iowa	89.9	85.0	90.0	95.0
Nebraska	86.2	80.0	90.0	95.0

18. Overall **economic conditions** in your area at the **present time?**

	Very Good	Good	Fair	Poor	Very Poor
All Ag Banks	2%	32%	56%	9%	0%
Minnesota	2	29	59	10	0
North Dakota	0	16	58	24	1
South Dakota	1	48	43	7	0
Montana	3	28	52	17	0
Wisconsin	2	28	63	7	0
Iowa	3	39	53	5	0
Nebraska	0	29	63	8	0
Twin Cities Banks	7	82	11	0	0
N. Minn.-Wisc.	0	42	32	24	3

Iowa — "Excellent recovery in 1986 and 87. Look for recovery to slow down as livestock prices decline, target and loan rates decline, and interest rate increases slightly."

"Expect 1988 to be better than 1987 even though some cuts are likely in price supports."

"Farm outlook is good. However, small town businesses are slower to recover."

"Stable in 1988. Concerned longer term if government payments decrease and poor crop occurs.

Minnesota — "Promising next 12 months, pessimistic following 12 months."

"1986 and 87 were very good net (farm) income years. Will be very difficult to repeat this again in 1988. Debt-wise farmers should be better off."

"Stable with increased non-farm employment from area manufacturing and service industries."

"I see a year not as good as '86-87, but much better than '85."

"Mainstreet business still hurting—the CRP program has affected their sales."

Montana — "With cattle prices up, things are getting better."

"Resource oriented and this area looks much improved from 12 months ago."

"Better than last year, but still only fair to poor."

"Stabilize for next 12-24 months with slow trend upwards."

Nebraska — "Livestock picture has improved economic conditions greatly."

"The economic outlook for most small communities is marginal at best."

"Economic conditions for farmers will stay good. Small town business, however, will continue to struggle."

"Good news is stabilized land values and reduced debt, making farmers' financial position look better."

North Dakota — "While debt has decreased, cash reserves and working capital has remained tight."

"We see strong improvement in credit quality."

"Farmers' cash flow and profitablity has improved substantially over the last two years, and should remain relatively stable at present levels."

"Don't see the farm recovery everyone is talking about. Think bottom is yet to come."

South Dakota — "Look for another year like 1987, expect customers will continue to pay down debt."

"Although softening somewhat, livestock prices will still remain at profitable levels."

"Look for improvement due to favorable livestock prices."

"Overall economic outlook for next year is good to very good."

"(Expect) lower income due to reduced government payments and reduced livestock prices, possibly lower crop yields."

Wisconsin — "Remain about the same, which is good at this time."

"Anticipated reduction in dairy-support price January 1, will tighten cash flow of marginal farmers."

"Industrial output excellent with high employment."

"Outlook not favorable due to projected decrease in milk prices."

Twin Cities — "Not much change from last six months—moderate growth."

"Steady to somewhat weaker."

"Concerned that rising interest rates will cause a slow down in the economy."

Northern Minnesota/Wisconsin — "Hope we have seen the end of the downturn in our economy."

"Fairly stable—no dramatic changes forseen."

"Should be good. Several major construction projects in area."

"Slowly improving, but still poor."

"Steady employment—no significant growth."

13. **Local economy** stronger or weaker than a year ago?

	Stronger	Same	Weaker
Twin Cities Banks	39%	61%	0%
N. Minn.-Wisc.	42	53	5

20. Are **capital expenditures** higher or lower than a year ago?

	Higher	Same	Lower
Twin Cities Banks	23%	66%	11%
N. Minn.-Wisc.	32	42	26

21. Change expected in **capital outlays** during **next six months**?

	Stronger	Same	Weaker
Twin Cities Banks	14%	66%	20%
N. Minn.-Wisc.	13	55	32

22. Are **retail sales** better or worse than a year ago?

	Better	Same	Worse
Twin Cities Banks	34%	59%	7%
N. Minn.-Wisc.	32	61	8

23. Are **automobile sales** better or worse than a year ago?

	Better	Same	Worse
Twin Cities Banks	17%	41%	41%
N. Minn.-Wisc.	23	54	23

24. Change expected in **consumer spending** during **next six months**?

	Stronger	Same	Weaker
Twin Cities Banks	20%	55%	25%
N. Minn.-Wisc.	8	68	24

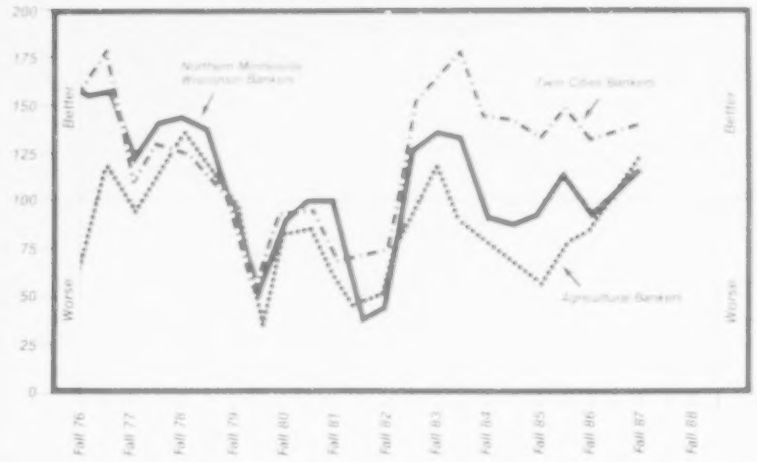
25. Are **housing starts** higher or lower than a year ago?

	Higher	Same	Lower
Twin Cities Banks	50%	34%	16%
N. Minn.-Wisc.	21	50	29

26. Anticipated trend in **economic conditions** during the **next six months**?

	Better	Same	Worse
All Ag Banks	26%	71%	3%
Minnesota	22	74	4
North Dakota	22	73	5
South Dakota	22	75	3
Montana	50	50	0
Wisconsin	13	83	4
Iowa	33	65	2
Nebraska	24	74	2
Twin Cities Banks	11	84	5
N. Minn.-Wisc.	18	79	3

Upper Midwest Confidence Index



Economic Survey

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ble crop yields. Debt-wise farmers should be better off, but those who have not gotten debt under control could have problems.

Land prices firm. According to the region's bankers, cropland prices are up 4 percent from a year ago, halting a five-year decline. One-fourth of the bankers reported increases of 10 percent or more. Iowa and Nebraska bankers reported the greatest increase.

At present, corpland prices are estimated to average about $1,050 per acre in Iowa. One-fourth of the Iowa bankers valued good cropland at $875 per acre or less; another one-fourth reported sales of $1,200 per acre or more. In grain-producing areas of Minnesota, good cropland was pegged at $800 an acre, with the upper quartile reporting land values in the $1,000 plus range. Nebraska's land values were $100 less than Minnesota's.

Two-thirds of the bankers look for fairly stable land prices during the next year, while 30 percent expect further increases. Nearly half of the Iowa bankers anticipate higher land prices next year, while most North Dakota and Wisconsin bankers forecast little change in land prices.

Lower exit rate. On average, bankers estimate that 2.2 percent of their customers quit farming during the past 12 months, down from a peak of 3.8 percent and the lowest number in four years. The median response was 1 percent, while 28 percent of the bankers said none of their customers went out of business.

Bankers predict that slightly fewer customers will discontinue operations during the next year. Some borrowers have made remarkable progress in reducing debt.

Bankers estimate that nearly 90 percent of their current farm customers will survive in the long run. One-fourth of the banks said that at least 95 percent of their customers will survive, while another one-fourth estimated that 80 percent or less of their customers would ultimately survive.

Twin Cities Economy

Relatively healthy. Nearly 90 percent of the Twin Cities bankers rated local economic conditions good to very good—higher marks than last spring. General retail sales, housing starts and capital expenditures are stronger than a year ago, but auto sales are lagging.

Wage and salary employment in the Twin Cities is 1.9 percent higher than a year ago, slightly slower growth than the national average. This pushed Twin Cities employment 12.8 percent above the peak reached before the 1981-82 recession, surpassing the national performance.

Manufacturing employment is up modestly from a year ago, as increases in metal fabrication, wood products and industrial machinery offset weakness in computers and scientific instruments. Job growth remains strong in finance, real estate and communications, and in business, personal and health services.

Most Twin Cities bankers expect little change in overall economic conditions during the next six months. Consumer spending is projected to remain near current levels, unless interest rates rise sufficiently to cool the economy.

Northern Minnesota/ Wisconsin Economy

Improvement seen. Bankers indicate that current economic conditions are stronger than in April. Forty-two percent of the bankers rated local conditions good, 32 percent fair and 26 percent poor. Last spring half the bankers rated economic conditions poor.

General retail sales are stronger than a year ago, while auto sales and capital expenditures are about the same as last year. Housing starts tend to be weaker.

Logging activty is strong, paper production is expanding, tourism has been up, and metal mining is starting to pick up. Although still low, metal-mining employment is up 20 percent from a year ago, perhaps signaling the end of the downturn on Minnesota's Iron Range.

Employment in Duluth is up 2.1 percent from a year ago. Several major construction projects have boosted construction employment 56 percent. Nondurable goods manufacturing and services employment are also up. Retail trade jobs are roughly constant, but other industries have experienced layoffs.

No dramatic changes are foreseen in the economy during the next six months. Iron Range bankers were the most optimistic: 40 percent of them look for stronger economic conditions; the rest anticipate little change. Other

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northeastern Minnesota and northern Wisconsin bankers expect fairly stable economic conditions.

Credit Conditions

Agricultural banks

Loan problems fading. The volume of problem farm loans continues to trend downward. Bankers in the seven-state region indicate that on average, 4.1 percent of their farm loans were nonperforming in October, down from 6.1 percent a year ago. The median response was 2 percent. One-fourth of the banks said that at least 5 percent of their farm loans were nonperforming, while another one-fourth said no more than four-tenths of 1 percent of their farm loans were nonperforming.

Two-thirds of the bankers predicted that net charge-offs of loans during 1987 would be lower than last year; only 13 anticipated higher charge-offs of loans.

Bankers reported that, in dollar terms, about 80 percent of their farm loans are experiencing little or no repayment problems. One-fourth of the banks said at least 92 percent of their farm loans had little repayment problems.

Loan demand remains weak. Bankers participating in this survey indicated that farm loans are down an average of 5 percent from a year ago. However, this trend was not universal. Twenty percent of the banks recorded increases averaging 11 percent, another 30 percent of the banks experienced no change in farm loans, while one-fourth of the banks recorded declines averaging 21 percent. The biggest declines occurred in Minnesota and Montana, while Wisconsin bankers reported increased farm-loan volume.

While farmers continue to repay debt, some banks have become more active in soliciting new farm loans.

When nonfarm loans are taken into account, bankers reported little change in overall loan volume. One-fourth of the banks anticipate somewhat stronger loan demand during the next 12 months, a larger group than those that expect weaker loan demand.

Deposit growth slows. Deposits at agricultural banks were up only 1.8 percent from a year ago; the median response was even lower. This was the weakest deposit growth reported in recent history. One-fourth of the banks reported a decline in deposits, while another one-fourth experienced deposit growth of 5 percent or more. Deposit growth was the strongest at Wisconsin banks and weakest in Montana.

In part due to weak deposit growth, the average loan-to-deposit ratio at agricultural banks rose 2.4 percentage points since April to 51 percent. This is still less than a year ago and well below historical levels. One-fourth of the banks had a ratio of 40 percent or less, while another one-fourth had a ratio of 60 percent or more. Iowa and South Dakota banks had the lowest ratios. Sixty-five percent of all bankers viewed their loan-to-deposit ratio as lower than desired.

The typical interest rate charged for farm operating loans averaged 11.5 percent in early October, up only slightly from April and still less than a year ago. Declining loan charge-offs probably allowed these banks to hold the line on interest rates despite rising rates paid on deposits.

Twin Cities banks

Deposit growth slows. Bank deposits are up about 6 percent from a year ago at Twin Cities banks, the slowest growth in several years. One-fourth of the banks recorded increases of 10 percent or more, while another one-fourth recorded increases of 2 percent or less.

Loan volume increased a moderate 4.7 percent from a year ago; however, the median response was 7.5 percent. One fourth of the banks experienced increases of 12.8 percent or more, while 20 percent reported declines averaging 11 percent.

At 63.4 percent, the average loan-to-deposit ratio rebounded 3.9 percentage points from last April's dip. One-fourth of the banks had a loan-to-deposit ratio of 57 percent or less, while another one-fourth had a ratio of 70 percent or more. Nearly 60 percent of the bankers still viewed their ratio as lower than desired.

Forty percent of the bankers anticipate stronger loan demand during the next 12 months; only 14 percent expect weaker loan demand. Credit quality is improving: 43 percent of the bankers expect a decline in loan charge-offs this year, while 25 percent anticipate higher charge-offs.

The typical interest rate charged for operating loans was 11 percent in early October, up from 10 percent last spring.

Northern Minnesota/ Wisconsin banks

Anemic loan demand. Bankers reported little change in loan volume from a year ago, evidence of a fairly weak economy. One-fourth of the banks had at least a 2.5 percent drop in loans, while another quarter experienced increases of at least 9.5 percent. Bankers anticipate little change in loan demand during the coming year.

Deposit growth slowed to 3 percent during the past 12 months, half the rate reported in April. This allowed the average loan-to-deposit ratio to increase nearly 2 percentage points to 55.7 percent, but this ratio still is well below a year ago. Twenty-five percent of the banks had a ratio of 64 percent or more, while another 25 percent had a ratio of 49 percent or less. About half of the bankers viewed their ratio as lower than desired.

The typical interest rate charged for operating loans was 11.7 percent, compared with 10.9 percent last spring. More than 40 percent of the bankers expect a decline in loan charge-offs during 1987, double the percentage that anticipates higher charge-offs.

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NORWEST CORPORATION

ECONOMIC INDICATORS

CORPORATE ECONOMICS DEPARTMENT–DR. SUNG WON SOHN, CHIEF ECONOMIST APRIL 29, 1988

Spring 1988 Regional Economic Survey

Farm Economy

Another good year. Record yields, hefty government subsidies, remarkable livestock profits, and debt reduction have greatly improved the farm financial picture. Nearly half of the agricultural bankers rated overall economic conditions good, and 48 percent fair—the highest marks in years. Only 4 percent of the bankers classified local conditions as poor.

Although financial problems linger for some producers, many have overcome the income and debt-servicing problems that plagued agriculture during the 1980s. With good weather, farmers should continue to make exceptional financial progress this year.

Iowa bankers were the most upbeat: 62 percent rated current conditions good. Nebraska bankers were next in line, followed by South Dakota. Unusually high returns to livestock producers have given a big boost to these areas. Meanwhile, bankers in North Dakota and Montana gave considerably less rosy appraisals; 80 percent rated current conditions fair to poor. The dual whammy of both an energy and an agricultural bust have resulted in a slower recovery in these states. However, bankers expect conditions to improve this year. Very favorable cattle prices, increased metal mining, a pick up in the lumber business, and diminishing problems in the energy area should benefit Montana in particular.

Bankers estimate that only 5 percent of their farm borrowers will experience negative cash flow this year. Those with little debt are expected to do exceptionally well.

Three-fourths of the bankers expect little change in economic conditions during the next six months, while 21 percent anticipate further improvement. This positive appraisal nudged the agricultural bankers' confidence index to the highest level since 1978 (see page 5). Bankers note, however, that mainstreet businesses in smaller rural towns continue to struggle, while regional trade centers are getting stronger. Income is highly mobile, and a greater share is being spent in regional trading centers.

Farmers' emphasis on paying off

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Highlights

- Our 24th semiannual survey of the region's bankers reveals that farmers continue to make exceptional financial progress. Land prices are up, credit problems are fading, and the number of farmers going out of business continues to decline.
- Although financial problems linger for some farmers, the vast majority are expected to survive in the long run. Many have overcome the income and debt-servicing problems that plagued agriculture this decade. However, a number of farmers need more time to build up a cushion against potential setbacks. Others need another good year to stabilize their finances.
- Agricultural bankers rate overall economic conditions the best in years. However, they note that mainstreet businesses in small rural towns continue to struggle, while regional trade centers are getting stronger as they capture a larger share of retail sales. Due to declining crop inventories, additional acreage will be brought back into production over the next couple of years, which should give agribusiness a boost.
- With good weather, farmers are expected to have another exceptional year. However, a number of bankers expressed concern over lack of moisture. A poor crop would be a serious setback for some farmers. Dry areas received some precipitation in late April. However, it is too early to tell whether the dry spell has been broken.
- Bankers are guarded about longer-term prospects. They anticipate lower livestock profits, rising crop production costs, and increased stress from lower milk-price supports. Bankers are also concerned about the heavy dependence of grain farmers on government subsidies and what might happen when the current farm bill expires after 1990.
- The steep drop in loan demand appears to be coming to an end. Increased crop acreage, rising production costs, and moderately higher capital expenditures are expected to boast loan demand in coming months.
- Bankers gave the Twin Cities economy high marks. Employment growth in communications, wholesale/retail trade, finance, insurance, legal, medical, and business services remains strong, while manufacturing employment is snapping out of the doldrums. Favorable conditions are projected to continue.
- Although still weak, economic conditions are slowly improving in northeastern Minnesota and northern Wisconsin. Logging activity is strong, paper production is expanding, taconite production is picking up, and a favorable tourist season is anticipated.
- Conducted in early April, this survey drew responses from about 750 bankers in Iowa, Minnesota, Montana, Nebraska, North Dakota, South Dakota, and Wisconsin.

Credit Conditions

Qualitative questions such as 2, 6, 10 and 18-26 show the percentage of bankers falling in each of the categories: higher, same, lower, etc. Items may not add up to 100 percent due to rounding.

1. *What is your current* **loan-to-deposit ratio?**

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	48.8%	40.0%	48.0%	59.0%
Minnesota	52.5	43.0	53.0	62.0
North Dakota	47.4	38.3	45.6	55.0
South Dakota	46.0	38.0	45.0	57.0
Montana	49.1	40.7	48.5	56.5
Wisconsin	58.7	50.0	60.0	65.0
Iowa	43.9	35.0	43.0	52.3
Nebraska	48.9	40.0	48.0	58.3
Twin Cities Banks	62.8	54.0	63.0	71.0
N. Minn.-Wisc.	58.1	48.0	61.0	67.0

2. ***Loan-to-deposit ratio** higher or lower than desired?*

	Higher	Desired	Lower
All Ag Banks	3%	27%	70%
Minnesota	4	29	66
North Dakota	2	30	68
South Dakota	3	27	70
Montana	3	20	77
Wisconsin	6	28	66
Iowa	1	26	73
Nebraska	2	24	74
Twin Cities Banks	5	36	59
N. Minn.-Wisc.	10	34	56

3. ***Typical interest rate** charged for operating loans?*

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	11.3%	11.0%	11.3%	11.8%
Minnesota	11.5	11.0	11.5	11.8
North Dakota	11.6	11.0	11.5	12.0
South Dakota	11.3	11.0	11.3	11.7
Montana	11.2	11.0	11.1	11.6
Wisconsin	11.1	10.8	11.0	11.5
Iowa	11.2	11.0	11.3	11.5
Nebraska	11.1	10.8	11.0	11.4
Twin Cities Banks	10.7	10.5	10.5	11.0
N. Minn.-Wisc.	11.4	10.8	11.2	12.0

4. *Percentage change in* **farm loan volume** *during* **past 12 months?**

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	-2.2%	-8.2%	0.0%	0.0%
Minnesota	-3.2	-10.0	0.0	0.0
North Dakota	-2.5	-8.0	0.0	2.8
South Dakota	-3.2	-9.3	0.0	0.0
Montana	-1.6	-8.0	0.0	0.0
Wisconsin	-0.1	-2.5	0.0	0.0
Iowa	-1.8	-10.0	0.0	4.0
Nebraska	-0.8	-5.8	0.0	0.0

5. *Percentage change in* **loan volume** *during* **past 12 months?**

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	0.7%	-5.0%	0.0%	5.0%
Twin Cities Banks	4.7	0.0	5.5	10.8
N. Minn.-Wisc.	4.0	0.0	0.0	8.0

6. ***Anticipated loan growth** during* **next 12 months** *compared with past year?*

	Higher	Same	Lower
All Ag Banks	35%	52%	13%
Minnesota	35	47	18
North Dakota	33	56	12
South Dakota	48	47	5
Montana	50	43	7
Wisconsin	30	58	11
Iowa	33	55	12
Nebraska	29	55	16
Twin Cities Banks	44	41	15
N. Minn.-Wisc.	41	41	17

7. *Percentage change in* **bank deposits** *during past 12 months?*

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	2.2%	0.0%	1.0%	5.0%
Minnesota	1.8	0.0	0.8	5.0
North Dakota	1.1	-1.0	0.0	5.0
South Dakota	4.0	0.0	5.0	8.0
Montana	-0.1	-4.4	0.0	5.3
Wisconsin	3.5	-0.3	5.0	8.5
Iowa	2.2	0.0	1.0	5.0
Nebraska	1.9	-1.7	1.3	4.8
Twin Cities Banks	4.2	0.0	6.0	10.0
N. Minn.-Wisc.	4.3	0.0	2.3	6.9

8. *Percentage of* **farm loan portfolio** *that is* **nonperforming?**

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	2.6%	0.0%	1.0%	4.0%
Minnesota	3.0	0.0	1.5	4.0
North Dakota	3.7	0.0	1.0	5.0
South Dakota	2.8	0.3	2.0	5.0
Montana	3.8	0.0	2.0	5.3
Wisconsin	2.2	0.0	1.0	3.1
Iowa	1.9	0.0	1.0	3.0
Nebraska	2.4	0.0	1.0	3.0

9. *Percentage of farm loans experiencing* **little or no repayment problems?**

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	84.7%	80.0%	90.0%	95.0%
Minnesota	84.1	75.0	85.0	95.0
North Dakota	74.0	57.5	82.5	90.0
South Dakota	81.1	75.0	85.0	95.0
Montana	83.9	76.3	90.0	95.0
Wisconsin	81.7	71.3	90.0	95.0
Iowa	89.9	85.0	93.0	97.0
Nebraska	83.7	80.0	90.0	95.0

10. ***Net loan charge-offs** compared with year ago?*

	Higher	Same	Lower
All Ag Banks	4%	30%	66%
Minnesota	6	26	67
North Dakota	2	42	56
South Dakota	2	20	78
Montana	0	30	70
Wisconsin	13	43	43
Iowa	1	29	69
Nebraska	2	36	63
Twin Cities Banks	18	36	46
N. Minn.-Wisc.	12	39	49

Business Conditions

11a. Current **market value** of good **cropland**? (Dollars per acre)

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	$ 779	$442	$775	$1100
Minnesota	753	550	800	1000
North Dakota	379	250	300	400
South Dakota	316	220	280	400
Montana	463	250	300	600
Wisconsin	537	400	513	600
Iowa	1139	981	1200	1388
Nebraska	759	575	750	950

11b. Current **market value** of **pastureland**? (Dollars per acre)

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	$268	$125	$250	$350
Minnesota	269	200	250	325
North Dakota	122	98	100	150
South Dakota	129	100	115	156
Montana	158	70	75	100
Wisconsin	227	150	200	300
Iowa	390	300	350	500
Nebraska	230	130	250	300

12a. Percentage **change** in **cropland prices** from a year ago?

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	8.9%	0.0%	10.0%	15.0%
Minnesota	8.8	0.0	10.0	15.0
North Dakota	2.8	0.0	0.0	5.0
South Dakota	6.7	0.0	6.0	10.0
Montana	-1.0	0.0	0.0	0.0
Wisconsin	-1.9	-1.3	0.0	0.0
Iowa	14.4	10.0	12.0	20.0
Nebraska	11.9	5.3	10.0	15.8

12b. Percentage **change** in **pastureland prices** from a year ago?

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	3.8%	0.0%	0.0%	8.0%
Minnesota	3.2	0.0	0.0	5.0
North Dakota	0.5	0.0	0.0	0.0
South Dakota	5.0	0.0	5.0	10.0
Montana	-0.8	0.0	0.0	0.0
Wisconsin	-1.8	0.0	0.0	0.0
Iowa	5.9	0.0	5.0	10.0
Nebraska	7.9	0.0	10.0	10.0

13. Anticipated trend in **land prices** during **next 12 months**?

	Increase	Stable	Decrease
All Ag Banks	38%	60%	2%
Minnesota	45	54	1
North Dakota	21	75	4
South Dakota	30	67	3
Montana	13	83	3
Wisconsin	10	80	10
Iowa	47	53	0
Nebraska	48	50	2

14. Percentage of farm borrowers having **negative cash flow** in 1988?

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	5.5%	1.0%	5.0%	10.0%
Minnesota	5.6	0.9	5.0	10.0
North Dakota	8.0	1.0	5.0	10.0
South Dakota	6.5	2.0	5.0	10.0
Montana	5.1	0.0	5.0	10.0
Wisconsin	10.2	5.0	7.0	10.0
Iowa	3.8	0.5	2.0	5.0
Nebraska	4.6	1.0	5.0	5.0

15. Percentage of farm customers that went **out of business** during the **past 12 months**?

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	1.7%	0.0%	1.0%	2.0%
Minnesota	2.0	0.0	1.0	2.0
North Dakota	1.6	0.0	1.0	2.0
South Dakota	1.6	0.0	1.0	2.0
Montana	1.5	0.0	0.0	2.0
Wisconsin	2.1	0.0	1.5	2.9
Iowa	1.4	0.0	1.0	2.0
Nebraska	1.8	0.0	1.0	2.0

16. Percentage of farm customers likely to **discontinue operating** during the **next 12 months**?

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	1.6%	0.0%	1.0%	2.0%
Minnesota	1.8	0.0	1.0	2.0
North Dakota	2.0	1.0	2.0	2.0
South Dakota	1.8	0.3	1.0	2.0
Montana	1.4	0.0	0.5	2.5
Wisconsin	2.2	1.0	2.0	3.0
Iowa	1.3	0.0	1.0	2.0
Nebraska	1.1	0.0	1.0	2.0

17. Percentage of farm/ranch customers likely to **survive** in the **long run**?

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	89.5%	85.0%	90.0%	95.0%
Minnesota	89.3	85.0	90.0	95.0
North Dakota	85.5	80.0	90.0	95.0
South Dakota	89.5	85.0	90.0	95.0
Montana	90.7	87.5	95.0	97.5
Wisconsin	87.1	80.0	90.0	95.0
Iowa	90.8	90.0	90.0	95.0
Nebraska	90.8	90.0	90.0	95.0

18. Overall **economic conditions** in your area at the **present time**?

	Very Good	Good	Fair	Poor	Very Poor
All Ag Banks	2%	45%	48%	4%	0%
Minnesota	1	43	52	3	0
North Dakota	0	17	62	21	0
South Dakota	2	50	47	2	0
Montana	0	20	63	13	3
Wisconsin	0	35	56	10	0
Iowa	4	58	37	0	0
Nebraska	7	47	47	0	0
Twin Cities Banks	8	82	10	0	0
N. Minn.-Wisc.	0	29	54	17	0

Iowa — *"The outlook is quite favorable. Most borrowers have recovered to a sufficient level of risk-bearing capacity that they are in a quite strong position financially."*

"High price of calves now seems to limit (cattle-feeding) profitability down the road."

"Numerous operators have annual interest costs less than half their 1981 costs. Most land purchases are for cash rather than borrowed capital."

Minnesota — *"Looking a lot better, but still much too dependent on government payments."*

"Had two excellent crops, with the highest yields ever recorded for this area. It is amazing to see the change in some of the financial statements."

"A poor crop would set our area up for a serious financial setback."

"Decreasing milk price can cause problems this summer."

Nebraska — *Expect continued prosperity, but are only cautiously optimistic for increased success of our local businesses."*

"Machinery dealers are having one of the best years in the last five or six."

"Farmers debt is way down; many will be prepared for lower incomes down the road."

"Cow/calf operators should continue to reap healthy profits. The cattle feeder faces much risk considering the price he is paying for cattle.

North Dakota — *"We are extremely dry at this time."*

"Depending upon moisture conditions, the economic outlook looks favorable as livestock prices are very attractive."

"Without rainfall this spring we won't be able to produce sufficient feed for our livestock."

"Some settling to do yet with some operators, but the outlook is good."

South Dakota — *"If it doesn't rain soon, look out for troubled times."*

"Cattle prices are the driving force in improvement. Moisture is limiting item at present."

"Most of our customers have stabilized, but aren't in a position to handle a major disaster."

"With adequate moisture, it should be excellent."

Montana — *"With a few exceptions, anyone that has survived to this point will be able to survive 1988. Some farmers need another good crop to get into financial condition to survive the long haul."*

"If we get moisture it will be a good year."

"Area is very dry. If no rain: big bust. With rain: farmers/ranchers will show excellent cash flow."

Wisconsin — *"Continued lowering of milk prices will cause strain on our farmers."*

"There will be some difficult years ahead for midwest dairy farmers."

"Farmers are in much better financial shape to weather the coming round of milk price cuts than they were in 1981 when interest rates went up and milk prices started to sag."

Twin Cities — *"Employment is strong. Housing is very strong. Business is expanding. Economic outlook for next 12 months is good."*

"Don't look for any significant increase or decrease."

"Outlook for next 12 months looks quite stable with some growth in housing and sales increasing for specialized job shops."

Northern Minnesota/Wisconsin — *"Slow, gradual improvement expected due to stronger timber markets and continued high level of tourism."*

"Outlook good due to expansion of paper company and tourism."

"Depressed area with not much chance of improvement."

"(Expect) slight improvement in local economy because of increased employment in taconite mining."

19. *Local economy stronger or weaker than a year ago?*

	Stronger	Same	Weaker
Twin Cities Banks	23%	74%	3%
N. Minn.-Wisc.	39	41	20

20. *Are capital expenditures higher or lower than a year ago?*

	Higher	Same	Lower
Twin Cities Banks	23%	59%	18%
N. Minn.-Wisc.	24	54	22

21. *Change expected in capital outlays during next six months?*

	Stronger	Same	Weaker
Twin Cities Banks	28%	59%	13%
N. Minn.-Wisc.	17	68	15

22. *Are retail sales better or worse than a year ago?*

	Better	Same	Worse
Twin Cities Banks	16%	68%	16%
N. Minn.-Wisc.	17	63	20

23. *Are automobile sales better or worse than a year ago?*

	Better	Same	Worse
Twin Cities Banks	26%	50%	24%
N. Minn.-Wisc.	23	56	21

24. *Change expected in consumer spending during next six months?*

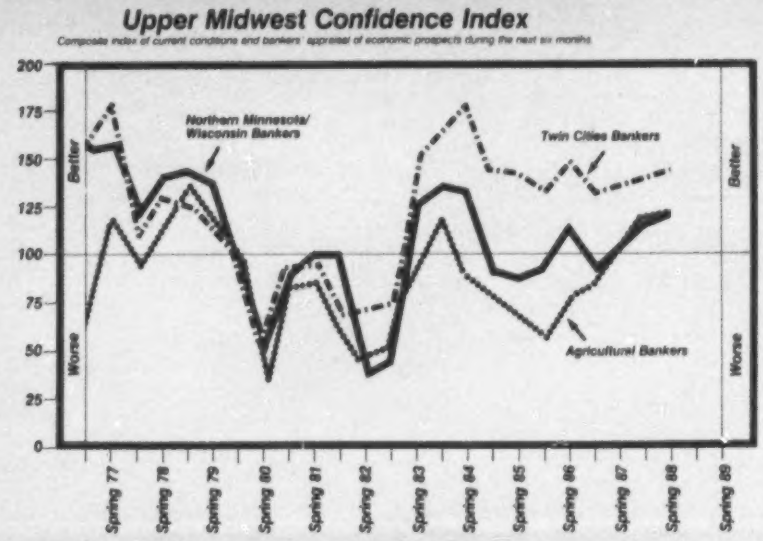
	Stronger	Same	Weaker
Twin Cities Banks	15%	62%	23%
N. Minn.-Wisc.	24	56	20

25. *Are housing starts higher or lower than a year ago?*

	Higher	Same	Lower
Twin Cities Banks	31%	38%	31%
N. Minn.-Wisc.	15	63	22

26. *Anticipated trend in economic conditions during the next six months?*

	Better	Same	Worse
All Ag Banks	21%	75%	4%
Minnesota	23	74	3
North Dakota	19	79	2
South Dakota	22	72	7
Montana	27	73	0
Wisconsin	13	77	9
Iowa	23	74	3
Nebraska	17	78	5
Twin Cities Banks	21	79	0
N. Minn.-Wisc.	46	51	2



Economic Survey *(continued from page 1)*

debt is another reason why rural areas have not benefited significantly from higher farm earnings. In addition, large amounts of idled acreage have also depressed agribusiness sales, but some relief should be on the way as additional acreage is brought back into production over the next few years.

Weather is the key. A number of bankers, especially in North Dakota, Montana, and parts of South Dakota, expressed concern over lack of moisture. This spring has been the driest in years in North Dakota. Some farmers need another good crop to get into the financial shape needed to survive the long haul. A poor crop would be a serious financial setback.

The basic problem is that the jet stream has been too far south this spring. However, as of this writing, the jet stream was starting to shift back to the north, bringing some precipitation to parts of the region. At this stage it is too early to tell whether the dry spell will be broken.

Bankers were also guarded about the prospects beyond 1988. They anticipate lower livestock profits and increased stress for dairy farmers as milk price supports continue to be lowered. Crop-production expenses are expected to rise as acreage is brought back into production. Bankers are also concerned about the heavy dependence of grain farmers on government subsidies and uncertainties after 1990 when the current farm bill expires. However, farm debt is way down, and many producers are prepared for lower incomes down the road.

Stronger land prices. After hitting a low in late 1986, land prices started to move upward last year, reflecting farmers' improved earnings, confidence, and financial condition. The Conservation Reserve Program has also supported land values. The rebound in land prices is continuing this year. According to the region's bankers, cropland prices are up 9 percent from a year ago. One-fourth of the bankers reported increases of 15 percent or more. Iowa and Nebraska experienced the greatest increases, while land prices were basically unchanged in Montana, North Dakota, and Wisconsin. While investors' interest in farmland is up, other studies indicate that the vast majority of farmland is still being purchased by existing farmers.

At present, cropland prices are estimated to average about $1,150 per acre in Iowa. One-fourth of the Iowa bankers valued good cropland at $1,400 per acre or more. In grain-producing areas of Minnesota, land was pegged at $850 an acre, with the upper quartile reporting land values in the $1,000 plus range. Nebraska's land values averaged about $750 per acre, with the upper quartile in the $950 plus range.

Pastureland prices showed little change in North Dakota, Montana, and Wisconsin, while increasing about 5 percent in South Dakota. Dry conditions are partially offsetting the optimism generated by high cattle prices. In addition, bankers indicate that rangeland previously was way overvalued and has now only fallen in line with its productive value.

Sixty percent of the bankers expect little change in land prices during the next 12 months, while 38 percent expect further increases. About half of the bankers in Iowa, Nebraska, and Minnesota grain areas anticipate higher land prices, while most Wisconsin, Montana, and North Dakota bankers forecast little change. Some bankers feel farmers are bidding land prices up to unrealistic levels. However, a number of farmers are paying cash for land, avoiding past problems of high leverage.

Exit rate continues downward. On average, bankers estimate that 1.7 percent of their customers quit farming during the past 12 months, down from 2.7 percent last spring and a peak of 3.8 percent two years ago. The median response was 1 percent, while 35 percent of the bankers said none of their customers went out of business.

Slightly fewer customers are expected to discontinue operations during the next year. Bankers indicate that 90 percent of their current customers should survive the long run, up from 80 percent just 18 months ago. Some farmers need another good year to stabilize their finances, while others are building a cushion to weather potential setbacks.

Twin Cities Economy

Relatively strong. Ninety percent of the Twin Cities bankers rated local economic conditions good to very good, similar to the high marks given last fall. General retail sales, auto sales, housing starts, and capital expenditures are all considered about the same as a year ago.

Wage and salary employment is up 3.1 percent from a year ago, more rapid growth than last spring. Employment growth in communications, wholesale/retail trade, finance, insurance, legal, health, and business services continues strong, while manufacturing employment is snapping out of the doldrums. Manufacturing employment is up 3.2 percent from a year ago. This resurgence is evident across a wide spectrum of manufacturing industries. American manufacturers are once again very price-competitive in international markets due to a weaker dollar and increased productivity.

Most Twin Cities bankers expect current favorable economic conditions to

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continue during the next six months, while 20 percent of the bankers anticipate an even stronger economy. Consumer spending is expected to cool somewhat, but capital spending is forecast to pick up as some manufacturing industries approach capacity constraints due to increased demand.

Northern Minnesota/ Wisconsin Economy

Slow improvement. Bankers indicate that current economic conditions are stronger than a year ago. Twenty-nine percent of the bankers rated local conditions good, 54 percent fair, and 17 percent poor. Last spring half of the bankers rated economic conditions poor. Despite this improvement, retail sales, capital spending, and especially homebuilding are lackluster.

On the positive side, logging activity is strong, paper production is expanding, a favorable tourist season is anticipated, and taconite production is picking up. Although still way below the 1979 peak, Minnesota metal-mining employment hit the 5,000 level in March, up from 3,400 jobs a year earlier.

In March, employment in Duluth was down 1.5 percent from a year earlier, due largely to a steep drop in construction jobs from last year's unusually high level. Without this drop, employment would have increased. The strongest industries include health services, retail trade, finance, insurance, and real estate.

While no dramatic changes are foreseen, economic conditions in northern Minnesota and Wisconsin are expected to continue to improve during the year. Forty-six percent of the bankers forecast stronger economic conditions; few anticipated weaker conditions.

Credit Conditions

Agricultural banks

Loan problems fading. The volume of problem farm loans continues to drop, reflecting strong farm earnings and the write-off of bad loans by lenders. In turn, falling farm debt and lower interest rates have slashed interest expenses. Bankers in the seven-state region indicate that on average, 2.6 percent of their farm loans were nonperforming in April, down from 5.3 percent a year ago and a peak of 6.6 percent two years ago. The median response was 1 percent. About 30 percent of the bankers said none of their farm loans were non-performing.

Bankers reported that, in dollar terms, 85 percent of their farm loans are experiencing little or no repayment problems. One-third of the banks said at least 95 percent of their farm loans had little repayment problems.

Two-thirds of the bankers predicted that net charge-offs of all loans during 1988 would be lower than last year; only 4 percent anticipated higher charge-offs of loans.

Decline in loan demand halted. Bankers reported virtually no change in overall loan volume from a year ago. Farm loans were still down an average of 2.2 percent; however, this was not universal. Nearly 60 percent of the bankers reported farm loan volume was either the same or higher than a year ago.

Increased crop acreage, rising production costs, and moderately higher capital expenditures are expected to increase loan demand in coming months. Thirty-five percent of the bankers anticipate somewhat higher loan demand during the next 12 months; only 13 percent expect weaker loan demand.

Loan-to-deposit ratio stabilized. While down seasonally from last fall, the average loan-to-deposit ratio (48.8 percent) was the same a year ago, halting a seven-year downward slide. Nevertheless, 70 percent of the bankers—a record number—viewed their ratio as lower than desired.

Deposits at agricultural banks were up only 2.2 percent from a year ago; the median response was even lower. This was only slightly better than the low recorded last fall.

Twin Cities banks

Loan-to-deposit ratios slipped. Loan volume increased a moderate 4.7 percent from a year ago. Deposit growth was also weak, increasing 4.2 percent from a year ago, the slowest growth in several years.

At 62.8 percent, the average loan-to-deposit ratio was down slightly from last fall, but remained above the low level experienced a year ago. One-fourth of the banks had a loan-to-deposit ratio of 54 percent or less, while another one-fourth had a ratio of 71 percent or more. Nearly 60 percent of the bankers viewed their ratio as lower than desired.

About 45 percent of the bankers anticipate stronger loan demand during the next 12 months; only 15 percent expect weaker loan demand. Credit quality continues to improve; 46 percent of the bankers expect a decline in loan charge-offs this year, while 18 percent anticipate higher charge-offs.

Northern Minnesota/ Wisconsin banks

Slightly better loan demand. Loan volume increased 4 percent from a year ago, the biggest gain in three years. The improvement, however, wasn't universal. Half of the banks report flat to declining loan volume, while one-fourth experienced increases of 8 percent or more. Deposit growth remained muted, averaging 4.3 percent over the last 12 months.

The average loan-to-deposit ratio increased 2.4 percentage points, reaching 58.1 percent, the highest level since April 1986. Over half of the bankers viewed their ratio as lower than desired.

About 40 percent of the bankers anticipate stronger loan demand during the next 12 months; another 4 percent expect little change in loan demand. Half of the bankers project fewer loan charge-offs during 1988, while only 12 percent forecast greater charge-offs.

By Dr. Larry J. Wipf
Director of Regional Economics

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NORWEST CORPORATION

ECONOMIC INDICATORS

CORPORATE ECONOMICS DEPARTMENT - DR. SUNG WON SOHN, CHIEF ECONOMIST OCTOBER 26, 1988

Fall 1988 Regional Economic Survey

Farm Economy

Drought impact varies widely. The drought produced winners and losers. Significant numbers of bankers reported that good crops and higher market prices are giving farmers more money to spend. Other bankers indicated that profits from selling stored grain are more than offsetting reduced yields. In some cases, the drought impact is being cushioned by diminished debt levels and financial resources built during the past two favorable years. High cattle prices are also assisting cow–calf operators.

At the other extreme, some bankers report that poor crop yields have destroyed all hope of a recovery. In the case of wheat and feed grains, increased market prices will be offset by reduced government deficiency payments. Government disaster aid won't make up for crop losses either, so farm income is expected to decline considerably. Mainstreet businesses are expected to feel the brunt of the impact as farmers curtail spending on big-ticket items in particular. Of course, it's a different story in areas with good crops. Also on the plus side, suppliers of seed, fertilizer, chemicals and fuel will benefit from increased planted acreage next year.

Other bankers indicate that the real impact of the drought will be felt next year. They note that 1988 farm income is being maintained by selling stored grain at a profit, culling cattle herds at attractive prices and utilizing feed carried over from previous years. But this is depleting financial reserves. Consequently, farmers' cash flow is expected to tighten when feed supplies run out and farmers have to purchase feed. Other farmers will feel the pinch next spring when planting expenses rise, government advance deficiency payments are reduced and farmers have less grain than usual to sell. Farmers with good crops or significant amounts of carryover grain won't feel the pinch at all.

Some bankers also note that the drought continues. Thus the 1989 outlook is highly dependent upon 1989 crops receiving sufficient moisture.

Overall, the agricultural bankers' appraisal of current economic conditions is down only moderately from last spring's upbeat survey results. Forty-three percent of the agricultural bankers still rated overall economic conditions good (compared with 47 percent last spring) and 46 percent fair. However, 12 percent of the bankers classified local conditions poor, up from 4 percent in April.

(continued on page 5)

Highlights

- Our 25th semiannual survey reveals that the drought caused extreme variability in economic conditions. Areas with good crops appear strong, while areas with poor crops remain depressed. Overall, however, bankers rate current economic conditions only slightly lower than last spring's upbeat results.
- The real impact of the drought will be felt next year when farmers encounter depleted feed supplies, smaller advance deficiency payments, increased planting expenses and less-than-usual amounts of grain to sell. However, no major credit problems are expected, and few farmers will be forced out of business. Farmers with good crops or significant amounts of carryover grain won't feel the pinch at all.
- At present, land prices continue to rise, loan problems continue to drop and the number of farmers going out of business has fallen to the lowest level in at least six years.
- Farm loan demand has picked up, halting the steep decline evident the past couple of years. Increased crop acreage, lower advance deficiency payments and rising production costs are expected to further boost loan demand next year.
- Bankers gave the Twin Cities economy the highest marks since this survey began in the mid 1970s. Population growth is well above the national average. Employment continues to rise, with the most rapid growth occurring in communications, business and health services and the manufacture of wood products, industrial machinery and scientific instruments. Bankers expect current favorable conditions to continue.
- Economic conditions continue to improve slowly in northeastern Minnesota and northern Wisconsin. Paper production is expanding, taconite production is picking up and tourism is relatively strong. However, parts of the region remain depressed. Economic conditions are not expected to change much in the coming year.
- Conducted in early October, this survey drew responses from more than 800 bankers in Iowa, Minnesota, Montana, Nebraska, North Dakota, South Dakota and Wisconsin.

Credit Conditions

Qualitative questions such as 2, 6, 10, 13 and 18–26 show the percentage of bankers falling in each of the categories: higher, same, lower, etc. Items may not add up to 100 percent due to rounding.

1. What is your current **loan-to-deposit ratio**?

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	52.7%	42.0%	53.0%	63.0%
Minnesota	57.8	49.0	58.0	68.0
North Dakota	48.6	35.8	48.0	59.1
South Dakota	47.1	36.5	48.0	58.0
Montana	52.3	42.0	52.0	59.0
Wisconsin	60.5	54.0	59.3	69.0
Iowa	48.8	40.0	48.0	57.0
Nebraska	54.6	43.0	55.0	65.0
Twin Cities Banks	65.1	58.4	67.0	73.0
N. Minn.-Wisc.	57.7	47.0	61.0	70.0

2. Loan-to-deposit ratio **higher or lower than desired**?

	Higher	Desired	Lower
All Ag Banks	7%	36%	57%
Minnesota	10	41	49
North Dakota	10	30	61
South Dakota	6	36	58
Montana	4	23	73
Wisconsin	6	34	60
Iowa	4	35	61
Nebraska	6	39	55
Twin Cities Banks	22	38	41
N. Minn.-Wisc.	3	53	45

3. **Typical interest rate** charged for operating loans?

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	11.8%	11.5%	11.8%	12.0%
Minnesota	12.0	11.7	12.0	12.4
North Dakota	11.9	11.5	12.0	12.3
South Dakota	11.9	11.5	12.0	12.0
Montana	12.2	11.8	12.3	12.5
Wisconsin	11.6	11.0	11.5	12.0
Iowa	11.6	11.3	11.5	12.0
Nebraska	11.7	11.3	11.5	12.0
Twin Cities Banks	12.0	11.5	12.0	12.1
N. Minn.-Wisc.	12.2	11.7	12.0	12.5

4. Percentage change in **farm loan volume** during **past 12 months**?

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	2.3%	0.0%	0.0%	9.0%
Minnesota	1.9	−0.5	0.0	7.6
North Dakota	1.3	−5.0	0.0	5.0
South Dakota	1.1	−5.0	0.0	8.0
Montana	0.7	−3.8	0.0	8.8
Wisconsin	−0.0	−1.0	0.0	2.0
Iowa	3.7	0.0	1.0	10.0
Nebraska	2.7	−4.0	0.0	10.0

5. Percentage change in **loan volume** during **past 12 months**?

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	4.6%	0.0%	4.0%	10.0%
Twin Cities Banks	7.5	2.3	6.0	10.0
N. Minn.-Wisc.	3.8	0.0	5.0	8.0

6. **Anticipated loan growth** during **next 12 months** compared with past year?

	Higher	Same	Lower
All Ag Banks	30%	55%	15%
Minnesota	26	59	15
North Dakota	30	56	15
South Dakota	43	48	9
Montana	30	67	4
Wisconsin	20	65	16
Iowa	35	48	17
Nebraska	20	63	18
Twin Cities Banks	30	54	16
N. Minn.-Wisc.	18	60	23

7. Percentage change in **bank deposits** during past 12 months?

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	1.7%	0.0%	1.0%	5.0%
Minnesota	2.0	0.0	1.5	5.0
North Dakota	−1.4	−4.8	0.0	0.0
South Dakota	2.7	−0.3	2.0	5.0
Montana	1.3	0.0	0.6	4.0
Wisconsin	3.7	0.0	3.0	7.6
Iowa	1.3	−1.0	0.0	5.0
Nebraska	2.5	0.0	3.0	5.5
Twin Cities Banks	3.5	0.0	2.6	8.8
N. Minn.-Wisc.	4.1	0.0	5.0	7.0

8. Percentage of **farm loan portfolio** that is **nonperforming**?

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	2.1%	0.0%	1.0%	3.0%
Minnesota	2.2	0.0	1.0	3.0
North Dakota	2.7	0.6	2.0	4.0
South Dakota	2.2	0.0	1.0	3.0
Montana	2.8	0.0	1.5	5.0
Wisconsin	2.4	0.0	1.0	3.0
Iowa	1.6	0.0	1.0	2.0
Nebraska	2.4	0.0	1.0	4.0

9. Percentage of farm loans experiencing **little or no repayment problems**?

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	84.4%	80.0%	90.0%	95.0%
Minnesota	82.7	75.0	90.0	95.0
North Dakota	76.7	70.0	85.0	90.0
South Dakota	83.3	80.0	87.5	95.0
Montana	82.0	76.3	90.0	95.8
Wisconsin	85.0	80.0	90.0	97.0
Iowa	87.4	80.0	95.0	97.0
Nebraska	88.8	83.8	90.0	95.0

10. **Net loan charge-offs** compared with year ago?

	Higher	Same	Lower
All Ag Banks	8%	29%	64%
Minnesota	13	26	61
North Dakota	11	39	49
South Dakota	4	22	73
Montana	0	26	74
Wisconsin	12	41	47
Iowa	3	27	70
Nebraska	6	32	62
Twin Cities Banks	22	35	43
N. Minn.-Wisc.	20	40	40

Business Conditions

11a. Current **market value** of good **cropland**? (Dollars per acre)

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	$ 656	$475	$800	$1200
Minnesota	798	550	800	1000
North Dakota	409	250	325	475
South Dakota	380	246	325	513
Montana	433	200	275	500
Wisconsin	532	400	500	600
Iowa	1261	1013	1250	1500
Nebraska	858	700	800	1100

11b. Current **market value** of **pastureland**? (Dollars per acre)

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	$285	$150	$250	$400
Minnesota	271	150	250	350
North Dakota	128	100	118	150
South Dakota	154	100	150	200
Montana	165	55	65	100
Wisconsin	245	169	238	293
Iowa	408	300	400	500
Nebraska	256	150	200	300

12a. Percentage **change** in **cropland prices** from a year ago?

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	8.6%	0.0%	7.0%	15.0%
Minnesota	8.4	0.0	5.0	13.0
North Dakota	0.7	0.0	0.0	0.0
South Dakota	5.1	0.0	4.0	10.0
Montana	0.0	0.0	0.0	0.0
Wisconsin	−2.0	0.0	0.0	0.0
Iowa	14.5	7.0	12.5	20.0
Nebraska	11.0	7.0	10.0	15.0

12b. Percentage **change** in **pastureland prices** from a year ago?

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	4.3%	0.0%	0.0%	8.0%
Minnesota	2.4	0.0	0.0	4.0
North Dakota	−0.3	0.0	0.0	0.0
South Dakota	5.0	0.0	0.0	5.5
Montana	−0.5	0.0	0.0	0.0
Wisconsin	−1.6	0.0	0.0	0.0
Iowa	7.3	0.0	5.0	10.0
Nebraska	10.3	1.3	9.0	14.8

13. Anticipated trend in **land prices** during **next 12 months**?

	Increase	Stable	Decrease
All Ag Banks	28%	70%	2%
Minnesota	27	72	1
North Dakota	18	75	7
South Dakota	28	71	2
Montana	19	81	0
Wisconsin	16	75	10
Iowa	32	67	1
Nebraska	39	61	0

14. Anticipated percentage of farm borrowers having **negative cash flow** in 1989?

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	12.6%	2.0%	7.0%	15.0%
Minnesota	13.7	3.0	10.0	18.0
North Dakota	17.2	3.1	11.3	25.0
South Dakota	11.6	2.0	10.0	15.0
Montana	9.0	0.0	5.0	11.3
Wisconsin	19.5	7.8	15.0	25.0
Iowa	11.3	2.0	5.0	15.0
Nebraska	4.3	0.0	3.5	9.5

15. Percentage of farm customers that went **out of business** during the **past 12 months**?

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	1.1%	0.0%	0.1%	2.0%
Minnesota	1.2	0.0	0.0	2.0
North Dakota	1.1	0.0	1.0	2.0
South Dakota	0.9	0.0	0.0	1.0
Montana	0.6	0.0	0.0	1.0
Wisconsin	1.6	0.0	1.0	2.0
Iowa	0.9	0.0	0.1	1.0
Nebraska	1.2	0.0	1.0	2.0

16. Percentage of farm customers likely to **discontinue operating** during the **next 12 months**?

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	1.7%	0.0%	1.0%	2.0%
Minnesota	1.9	0.0	1.0	2.0
North Dakota	2.3	1.0	2.0	3.0
South Dakota	1.4	0.0	1.0	2.0
Montana	1.3	0.0	0.3	2.0
Wisconsin	1.9	0.5	1.0	3.0
Iowa	1.5	0.0	1.0	2.0
Nebraska	1.5	0.0	1.0	2.0

17. Percentage of farm/ranch customers likely to **survive** in the **long run**?

	Survey Average	Response by percentile 25th	50th	75th
All Ag Banks	90.6%	90.0%	90.0%	95.0%
Minnesota	90.0	85.0	90.0	95.0
North Dakota	88.7	85.0	90.0	95.0
South Dakota	90.2	85.0	91.0	95.0
Montana	92.4	90.0	95.0	97.5
Wisconsin	89.8	85.0	90.0	95.0
Iowa	91.8	90.0	95.0	98.0
Nebraska	89.8	87.3	90.0	95.0

18. Overall **economic conditions** in your area at the **present time**?

	Very Good	Good	Fair	Poor	Very Poor
All Ag Banks	3%	40%	46%	10%	2%
Minnesota	3	37	49	10	1
North Dakota	0	8	48	34	10
South Dakota	5	39	44	11	2
Montana	0	19	52	26	4
Wisconsin	6	24	61	8	2
Iowa	3	52	42	2	0
Nebraska	2	66	28	2	2
Twin Cities Banks	19	76	5	0	0
N. Minn.-Wisc.	3	55	28	10	5

Iowa — *"Our area is not suffering from the drought."*

"Profits on carryover grain will offset drought losses."

"Full impact of drought won't be realized until 1989."

Drought will have significant negative effect on 1989 cash flow and debt-servicing ability."

"Most farmers will be able to repay annual operating debt, but will have problems making scheduled term debt payments."

Minnesota — *"Local economy will not see any reduction due to drought. Many farmers sold '87 crop for higher prices and reduced their debt."*

"Drought will curb major spending. Portfolio will perform reasonably well with some exceptions."

"Progress made in '86 and '87 has been wiped out or seriously diminished by drought."

"Outlook is good; farmers are probably in better shape than they have been in the past few years."

"Drought will affect majority of customers, but not to point of going out of business."

Montana — *"Drought positively affected area which is producer of (irrigated) hay and cattle."*

"Most operators that have survived this far will continue to do so."

"Farm and ranch operators will be cautious and may delay some purchases due to the drought."

"The drought had a devastating impact that will be felt for years to come."

Nebraska — *"Farmers in this area will probably have the best year in history."*

"Drought is having minimal impact on area due to timely rains and higher prices. Loan repayments will increase."

"Look for another good year in 1989. We are in an irrigated area, and have had excellent yields the last three years."

"We anticipate modest to good loan growth in 1989."

"Farmers are basically holding their own and expect the same next year."

North Dakota — *"Drought will keep our local economy performing at its current poor level."*

"Real impact of drought will be felt in the spring of 1989; (financial) reserves are being depleted in 1988."

"Farmers weren't hurt as bad as local businesses."

"Farm economy is not good, net income after government assistance will still be down 25 percent or more."

South Dakota — *"Most farming operations will show a profit this year and some debt reduction will occur."*

"Our community has a strong retail and commercial base and should continue to grow during 1989."

"Economic outlook is dismal. Mainstreet is suffering severely."

"Outlook will be severe if drought continues into 1989 both from feed and pasture standpoint."

"Most customers had excellent crops."

Wisconsin — *"Economic outlook is fair. Drought had a definite impact, but most farmers had feed carryover from previous year."*

"Full effect (of drought) will not be felt until late winter."

"Our area did not suffer as much from drought as adjoining counties. Our industry base is functioning well."

Twin Cities — *"Business will remain good and employment will remain high. Looking forward to an excellent year."*

"Economy will remain close to past 12 months. Employment is strong. Still many new people moving into area."

"Expect continued moderate growth."

Northern Minnesota/Wisconsin — *"Outlook very good due to expansion of paper company. Tourism has also been good."*

"Stagnant. We need new industry for our area."

"County is economically depressed. Light industry has stayed about even with production a year ago. Logging industry is weaker."

19. **Local economy** stronger or weaker than a year ago?

	Stronger	Same	Weaker
Twin Cities Banks	30%	70%	0%
N. Minn.-Wisc.	45	50	5

20. Are **capital expenditures** higher or lower than a year ago?

	Higher	Same	Lower
Twin Cities Banks	24%	68%	8%
N. Minn.-Wisc.	30	53	18

21. Change expected in **capital outlays** during **next 12 months**?

	Stronger	Same	Weaker
Twin Cities Banks	14%	65%	22%
N. Minn.-Wisc.	15	68	18

22. Are **retail sales** better or worse than a year ago?

	Better	Same	Worse
Twin Cities Banks	32%	65%	3%
N. Minn.-Wisc.	33	48	20

23. Are **automobile sales** better or worse than a year ago?

	Better	Same	Worse
Twin Cities Banks	16%	62%	22%
N. Minn.-Wisc.	33	56	10

24. Change expected in **consumer spending** during **next 12 months**?

	Stronger	Same	Weaker
Twin Cities Banks	8%	65%	27%
N. Minn.-Wisc.	23	58	20

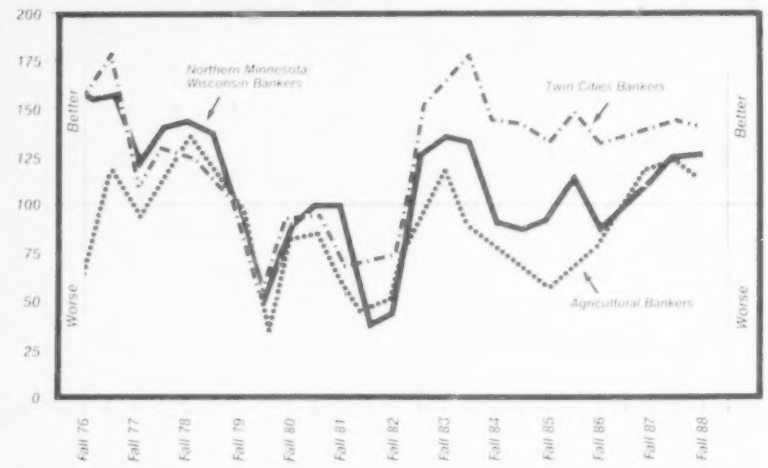
25. Are **housing starts** higher or lower than a year ago?

	Higher	Same	Lower
Twin Cities Banks	33%	31%	36%
N. Minn.-Wisc.	30	48	23

26. Anticipated trend in **economic conditions** during the **next 12 months**?

	Better	Same	Worse
All Ag Banks	19%	68%	13%
Minnesota	16	71	13
North Dakota	22	59	19
South Dakota	26	64	11
Montana	30	70	0
Wisconsin	18	71	12
Iowa	19	65	16
Nebraska	16	78	6
Twin Cities Banks	11	83	6
N. Minn.-Wisc.	28	70	3

Upper Midwest Confidence Index



Economic Survey

(continued from page 1)

Nebraska bankers were the most upbeat; 68 percent rated current conditions good and only 4 percent poor. These are somewhat higher marks than those given last spring. Iowa bankers were next in line with 55 percent rating current conditions good. The drought was least severe in these two states.

Economic conditions appeared weakest in North Dakota, where 44 percent of the bankers rated current conditions poor and another 48 percent fair. Especially low marks came from the western two-thirds of the state. North Dakota had among the poorest crop yields and rangeland conditions in the nation. Montana bankers also gave less rosy appraisals; 30 percent rated current conditions poor, compared with 19 percent good. However, bankers in western Montana indicated that the timber industry is doing well.

Nearly 70 percent of the bankers expect little change in economic conditions during the next 12 months, while those expecting conditions to improve slightly outnumber those anticipating a weaker economy. These appraisals typically assumed that adequate moisture would be received for next year's crops.

Very few farm failures. On average, bankers estimate that 1.1 percent of their customers quit farming during the past 12 months, half the rate of a year ago and the lowest since this question was first asked six years ago. Moreover, 49 percent of the bankers said none of their customers went out of business.

Bankers also indicated that they do not expect to see many farm customers forced out of business by the drought. Bankers estimate that 13 percent of their farm customers will experience negative cash flow in 1989; the median response was 7 percent. These figures are up modestly from the past two years.

Bankers estimate that 90 percent of their current farm customers will survive the long run. Nearly half of the bankers said at least 95 percent of their customers will remain in business over the long haul. These estimates are higher than last spring's.

Land-price rise continues. According to the region's bankers, cropland prices are up 9 percent from a year ago. Nearly 30 percent of the bankers reported increases of 15 percent or more. Iowa and Nebraska, least hurt by the drought, experienced the greatest increase, while land prices were basically unchanged in the hardest-hit states of North Dakota, Montana and Wisconsin.

At present, cropland prices are estimated to average $1,250 per acre in Iowa. One-fourth of the Iowa bankers valued good cropland at $1,500 per acre or more. Some bankers were concerned that land prices may soon be bid up too high. However, an increased number of farmers are paying cash for land, avoiding past problems with high leverage.

Nebraska's land values averaged $850 per acre, with the upper quartile in the $1,100-plus range. In grain-producing areas of Minnesota, land was pegged at $800 an acre, with the upper quartile reporting land values in the $1,000-plus range.

Pastureland prices were unchanged from a year ago in most states in the region because dairy producers in Minnesota and ranchers in North Dakota, eastern Montana and western South Dakota were among the hardest hit by the drought.

Seventy percent of the bankers expect little change in land prices during the next 12 months, while 28 percent expect further increases—a smaller number than last spring.

Leading real estate lenders. According to USDA figures, commercial banks have emerged as leading providers of farm real estate loans. For the year ending February 1, 1988, commercial banks provided 54 percent of the credit extended to finance farm real estate transfers in the Corn Belt, up from only 4 percent in the early 1980s. Federal Land Banks (FLB), traditionally the largest land lender, financed only 15 percent of the land transfers in the Corn Belt, considerably less than their 44 percent share in the early 1980s.

However, the FLB remained a major source of financing in the Northern Plains, providing one-third of the land financing, the same share as commercial banks. Seller financing of land transfers has also become less important in recent years.

Twin Cities Economy

High ratings. Ninety-five percent of the Twin Cities bankers rated local economic conditions good to very good, the highest marks since this survey began in the mid 1970s. Capital spending and general retail sales are stronger than a year ago. Population growth remains well above the national average, jumping 2.2 percent during the year ending April 1, 1988. Homebuilding, although down from last year's outstanding level, remains relatively strong.

Nonfarm employment is up 2.6 percent from a year ago, pushing Twin Cities employment 18 percent above the previous peak of early 1981.

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(continued from page 5)

Manufacturing employment is 3 percent higher than a year ago, led by lumber/wood products, industrial machinery and scientific instruments. Communications, business services and health-services employment growth also is strong.

Most Twin Cities bankers expect current favorable economic conditions to continue during the next 12 months. However, consumer spending and, to a lesser extent, capital spending are expected to cool from this year's strong level.

Northern Minnesota/ Wisconsin Economy

Continued improvement. Bankers indicate that current economic conditions are stronger than a year ago. Nearly 60 percent of the bankers rated local conditions good, 28 percent fair and 15 percent poor. Retail sales, capital spending and homebuilding are all moderately stronger than a year ago.

Tourism has been reasonably good. Metal-mining employment is up 12 percent from a year ago, but still remains way below the 1979 peak. Paper plants are expanding in a couple of cities, boosting local conditions. However, parts of the region remain depressed.

The majority of the bankers anticipate little change in economic conditions during the next 12 months, while 28 percent look for a stronger local economy.

Credit Conditions

Agricultural Bankers

Fewer credit problems. The number of problem farm loans continues to drop. Bankers indicated that on average, 2.1 percent of their farm loans were nonperforming in October, down from 4.1 percent a year ago and a peak of 6.6 percent in early 1986. One-third of the bankers said none of their farm loans were nonperforming. On average, bankers regarded 85 percent of their farm-loan portfolio as having little or no repayment problems. The median response was even higher.

Nearly two-thirds of the banks expect net charge-offs of all loans to decline this year; only 8 percent expect higher charge-offs.

A number of bankers said the drought will not have any adverse impact on their loan portfolio. Others expect some deterioration in loan quality as farmers encounter some difficulty in making scheduled term-debt payments. Overall, however, no major credit problems are anticipated since debt levels are lower and farmers have had a couple of good years prior to the drought. Government disaster payments and federal crop insurance will also soften the blow.

Stronger loan demand. Loans are up an average of 4.6 percent from a year ago, halting the decline that was evident the past couple of years. Increased crop acreage, lower advanced deficiency payments and rising farm production costs are expected to further increase loan demand next year. Thirty percent of the bankers expect higher loan demand during the next 12 months; half that number expect weaker loan demand.

Stronger loan demand and weak deposit growth boosted the average loan-to-deposit ratio nearly 2 percentage points to 52.7 percent, ending an eight-year decline. One-fourth of the banks had a ratio of 40 percent or less, while another one-fourth had a ratio of 60 percent or more. Fifty-seven percent of the bankers still viewed their ratio as lower than desired, down from a record 70 percent in April.

Deposits at agricultural banks were up only 1.7 percent from a year ago; the median response was even lower. This extends the recent pattern of very anemic deposit growth.

The typical interest rate charged for operating loans was 11.8 percent, up from 11.3 percent in April.

Twin Cities Credit

Improved loan demand. Loan volume increased 7.5 percent from a year ago, rebounding from recent weak levels. One-third of the banks recorded increases of 10 percent or more. But deposits edged up only 3.5 percent from a year ago, the slowest growth in recent history. One-fourth of the banks recorded increases of 9 percent or more, while another one-fourth reported no deposit growth.

At 65.1 percent, the average loan-to-deposit ratio rebounded 2.3 percentage points from last April's dip, reaching the highest level since 1985. One-fourth of the banks had a ratio of 73 percent or more, while another one-fourth had a ratio of 58 percent or less. One-fifth of the bankers viewed their ratio as higher then desired, while two-fifths said their ratio was lower than desired.

Thirty percent of the bankers anticipate stronger loan demand during the next 12 months; 16 percent expect weaker loan demand. Credit quality is improving; 43 percent of the bankers expect a decline in loan charge-offs this year, while 22 percent anticipate higher charge-offs.

The typical interest rate charged for operating loans was 12 percent in early October, up from 10.7 percent last spring.

Northern Minnesota/ Wisconsin Credit

Moderate loan demand. Loans were up 4 percent from a year ago, the biggest gain in three years. The improvement, however, wasn't universal. Nearly 40 percent of the banks reported flat to declining loan volume, while one-fourth experienced increases of 8 percent or more. Deposit growth remained muted, averaging 4.1 percent over the past 12 months.

The average loan-to-deposit ratio declined slightly since last spring to 57.7 percent, but remained two percentage points higher than a year ago. Nearly half of the bankers viewed their ratio as lower than desired. Most bankers expect little change in loan demand during the coming year.

Forty percent of the bankers expect a decline in loan charge-offs this year, double the percentage that project higher charge-offs. The typical interest rate charged for operating loans was 12.2 percent, up from 11.4 percent in April.

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